Why GAO Did This Study

This report, the third in response to a mandate under the American Recovery and Reinvestment Act of 2009 (Recovery Act), addresses the following objectives: (1) selected states’ and localities’ uses of Recovery Act funds, (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds, and (3) states’ plans to evaluate the impact of Recovery Act funds. GAO’s work for the report is focused on 16 states and certain localities in those jurisdictions as well as the District of Columbia (District)—representing about 65 percent of the U.S. population and two-thirds of the intergovernmental federal assistance available. Under the Recovery Act, GAO collected and analyzed documents and interviewed state and local officials. GAO also analyzed federal agency guidance and spoke with Office of Management and Budget (OMB) officials and with program officials at the federal agencies overseeing Recovery Act programs.

What GAO Recommends

GAO makes recommendations to federal agencies to address accountability and transparency issues. They are discussed on the next page and in the report. GAO also has recommendations to OMB (on pages 122 and 131-134) and a matter for congressional consideration (on page 123). The report draft was discussed with federal and state officials who generally agreed with its contents.

View GAO-09-1016 or key components. For state summaries, see GAO-09-1017SP. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

RECOVERY ACT

Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed

What GAO Found

Across the United States, as of September 11, 2009, the Department of the Treasury had outlayed about $48 billion of the estimated $49 billion in Recovery Act funds projected for use in states and localities in federal fiscal year 2009, as shown in the figure. More than three-quarters of the federal outlays have been provided through the increased Medicaid Federal Medical Assistance Percentage (FMAP) and the State Fiscal Stabilization Fund (SFSF) administered by the Department of Education.

Increased Medicaid FMAP Funding

All 16 states and the District have drawn down increased Medicaid FMAP grant awards of just over $20.3 billion for October 1, 2008, through September 15, 2009, which amounted to over 87 percent of funds available. All states and the District experienced Medicaid enrollment growth. States and the District reported they are planning to use the increased federal funds to cover their increased Medicaid caseload and to maintain current benefits and eligibility levels. Most states also reported that they would use freed-up funds to finance general state budget needs. The increased FMAP continues to help states finance their growing Medicaid programs, but state and District officials expressed concern about the longer term sustainability of their Medicaid programs after the increased FMAP funds are no longer available, beginning in January 2011.

Highway Infrastructure Investment and Transit Funding

A substantial portion of the approximately $35 billion the Recovery Act appropriated for highway infrastructure projects and public transit has been obligated nationwide and in the states and the District that are the focus of GAO’s review. As of September 1, the Department of Transportation (DOT) had obligated approximately $11 billion for almost 3,800 highway infrastructure and other eligible projects in the 16 states and the District and had reimbursed these 17 jurisdictions about $604 million. Across the
nation, almost half of the obligations have been for pavement improvement projects because they did not require extensive environmental clearances, were quick to design, obligate and bid on, and could employ people quickly. For transit funds, GAO focused on the Transit Capital Assistance Program, which received $6.9 billion—or 82 percent—of the Recovery Act public transit funds. Recovery Act funds obligated under this program are primarily being used for upgrading transit facilities, improving bus fleets, and conducting preventive maintenance. Recipients of highway and transit Recovery Act funds, such as state departments of transportation and transit agencies, are subject to multiple reporting requirements. Although some guidance has been provided from OMB and DOT, state highway and transit officials expressed concerns and challenges about reporting requirements. GAO recommends that the Secretary of DOT continue to reach out to state transportation departments and transit agencies to identify common problems in accurately fulfilling reporting requirements and provide additional guidance, as appropriate.

State Fiscal Stabilization Fund
As of September 15, 2009, the District and 15 of the 16 states covered by our review had received approval from Education for their initial SFSF funding applications. Pennsylvania had submitted an application to Education, but it had not yet been approved. As of August 28, 2009, Education had made $21 billion in SFSF grants for education available to the 15 states and the District—of which over $7.7 billion had been drawn down. GAO has previously reported that school districts said they would use SFSF funds to maintain current levels of education funding, particularly for retaining teachers and staff and current education programs. They also told GAO that SFSF funds would help offset state budget cuts. Education has not completed monitoring plans for SFSF, and it is not clear that states have begun to put in place subrecipient monitoring systems that comply with Education’s requirements. GAO recommends that Education take further action to ensure states understand and carry out their responsibility to monitor subrecipients of SFSF funds and consider providing training and technical assistance to states to help them develop state monitoring plans for SFSF.

Other Recovery Act Programs
GAO makes recommendations in this report on other Recovery Act programs, as well. While many program officials, employers, and participants believe the Workforce Investment Act summer youth program activities have been successful, measuring actual outcomes has proven challenging and may reveal little about what the program achieved. GAO recommends that the Secretary of Labor provide additional guidance on how to measure work readiness—Labor’s indicator to gauge the effect of the summer youth activities. Also, to build on the important steps the Department of Housing and Urban Development (HUD) has already taken to monitor housing agencies’ use of Recovery Act funds, GAO recommends that the Secretary of HUD expand criteria for selecting housing agencies for onsite reviews to include housing agencies with open Single Audit findings that may affect the use of and reporting on Recovery Act funds. In addition, the Recovery Act appropriated $5 billion over 3 years for the DOE Weatherization Assistance Program. However, most states have not begun to weatherize homes, partly because of concerns about prevailing wage rate requirements. Labor completed its determination of the wage rates on September 3, 2009.

Accountability
States have implemented various internal control programs; however, federal Single Audit guidance and reporting does not fully address Recovery Act risk. The Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take action on deficiencies. Moreover, current guidance does not achieve the level of accountability needed to effectively respond to risks. OMB is vetting a pilot program for early written communication of internal control deficiencies for Recovery Act programs that, if properly scoped to achieve sufficient coverage of Recovery Act programs, could address concerns about the timeliness of Single Audit reporting. Finally, state auditors need additional flexibility and funding to undertake the added Single Audit responsibilities under the Recovery Act.

Impact
States and localities as nonfederal recipients of Recovery Act funds are required to report quarterly on a number of measures, including the use of funds and estimates of the number of jobs created and retained. This unprecedented level of detailed information to be reported by a large number of recipients into a new centralized reporting system raises possible risk for the quality and reliability of these data. The first of these reports is due in October 2009.

GAO’s Crosscutting Recommendations
GAO reports on progress in addressing its prior recommendations that OMB provide

- clearer accountability for recipient financial data,
- program-specific examples of recipient reports, outreach to nonfederal recipients, and further guidance on program performance measures; and
- timely notification of funding provided within a state to key state officials and a master schedule for anticipated new or revised federal agency guidance.